



Sent to Council: Distributed on:

Memorandum ^{MAR - 5 2009}
by City Manager's Office

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: March 4, 2009

Approved

Date

3-5-09

COUNCIL DISTRICT: Citywide

INFORMATION

**SUBJECT: IMPACT OF RECENT STATE AND FEDERAL ACTIONS ON THE
CITY'S AFFORDABLE HOUSING PROGRAM**

In recent days, the Housing Department has received both good news and bad news with respect to funding for the City's affordable housing and homeless programs. On the positive side, the passage of the American Recovery and Reinvestment Act, and the recent release of the FY 2009 Omnibus appropriations bill in Congress and the President's 2010 Budget Blueprint, will bring additional revenue to San Jose. On the negative side, the budget passed by the State to close its \$40 billion budget deficit and other State actions will have a real impact on our efforts to increase the affordable housing supply and address the crisis of homelessness. This memorandum details these impacts.

American Recovery and Reinvestment Act

On February 17, 2009, the President signed the American Recovery and Reinvestment Act (ARRA), which provides a large, one-time domestic spending package along with tax relief measures to help stimulate the nation's faltering economy. Of note for San Jose, the ARRA provides \$4,128,763 for the Emergency Shelter Grant (ESG) and \$2,700,463 for the Community Development Block Grant (CDBG) programs.

In addition to these funds, which are appropriated directly to San Jose, the Housing Department has also identified opportunities for the City or its partners to apply for funding from competitive programs: Transitional Housing Assistance Grants for Victims of Violence against Women, the Neighborhood Stabilization Program (NSP), and Energy Retrofits and Greening Projects for Federally-Assisted Housing. Additionally, we are exploring opportunities with the Department of Environmental Services (for green improvements to affordable housing developments) and the Office of Economic Development's Work2future Program (for employment programs for the homeless) to access funding through programs included in the ARRA package.

March 4, 2009

SUBJECT: State and Federal Budget related to Affordable Housing

Page 2

The ARRA bill also included funding for the HOME Investment Partnership Program, though funds are to be allocated through each State's Low-Income Housing Tax Credit (LIHTC) Allocating Authority. This allocation was provided to respond to the current problems faced by projects that have 9% LIHTC awards but have been unable to find investors in this difficult economy. Unfortunately, it is unlikely that San Jose will be competitive for these funds because there are no existing projects with 9% funding awards.

Federal 2009 Budget and the President's 2010 Budget Blueprint

Last year, Congress and the Bush Administration failed to come to agreement on the FY 2009 spending plan. In order to keep the government running until the new Administration was sworn in, Congress passed a Continuing Resolution (CR) through March 6.

With the passage of the economic recovery bill, work began on all nine remaining FY 2009 appropriations bills, including the Transportation-HUD (THUD) spending bill. These bills allocate funds for federal fiscal year 2009, which runs from October 2008 to September 2009. The House approved the bill last week and it is now in the Senate for action. While not final, it is expected that the THUD bill will provide flat or small increases in funding for several key affordable housing and community development programs-- the Community Development Block Grant (CDBG), the HOME Investment Partnership (HOME), the Emergency Shelter Grant (ESG), and the Housing Opportunities for Persons with AIDS (HOPWA) programs. In addition to entitlement funding, the THUD bill includes \$476,000 for the Boccardo Reception Center's (BRC) innovative Homeless Respite Care Center. If approved, this funding will allow the newly opened Respite center to purchase new equipment needed to fully equip the center.

President Obama released his FY 2010 budget blueprint last week. The funds included in this blueprint are for federal fiscal year 2010, which begins in October of 2009. While only a summary of what we will eventually see when the official budget plan is released, the blueprint included an approximate 25% increase in CDBG funding (increasing the City's allocation from just under \$10 million to an estimated \$12.5 million), and a small increase in HOME funding. However, the President has also indicated a desire to revise the allocation formula for various HUD programs to ensure that the funds are going to the neediest residents. We will be working with our Washington D.C. lobbyists to ensure that San Jose's interests are considered in any adjustments to the formula allocations. Additionally, the blueprint included a \$1 billion allocation for the federal Housing Trust Fund--the first funding allocated to this effort. Housing Trust Funds are expected to be allocated directly to states.

State Budget

In December, the State's Pooled Money Investment Board announced that it would halt any sale of bonds until after the Legislature passed the FY2008-09 budget. This action had an immediate impact on the City's affordable housing program. First, the State has not paid funds that were advanced by the City for projects that were funded under approved contracts. The Housing

March 4, 2009

SUBJECT: State and Federal Budget related to Affordable Housing

Page 3

Department is owed over \$3 million in funds as of this time. Second, San Jose developers have contracts with the State for funds awarded under Proposition 1C for which the State has not released funds. Third, projects that were in process and had not yet been awarded State funds were unable to obtain needed funding to leverage City commitments.

After the passage of the State budget, the State Treasurer convened a meeting where it was announced that he believed it would be some time before the State would be able to borrow. The State has current obligations—including obligations to the City—of \$7 to \$9 billion. Once borrowing is possible, the Treasurer estimated that the bond markets would be able to absorb between \$1 and \$2 billion a month. This means that it will be months, and possibly as long as a year, before the City and its developer partners are paid for current obligations. Adding to this problem, the California Housing Finance Agency (CalHFA), an important source of funding for local developments, has been unable to borrow since last summer.

For San Jose projects, this means that several affordable housing projects that were otherwise ready to proceed will be on hold pending the availability of State funding. It also means that projects in the pipeline that were intending to start construction in the coming months will be unable to proceed. Funds that were anticipated to fund homeownership loans through the State's BEGIN Program will not be forthcoming. Additionally, funds that were granted to implement the mobilehome infrastructure demonstration project (\$300,000), the Blackford Neighborhood improvement plan (\$250,000), and construction of a child care center at the Destination:Home One-Stop at Georgia Travis (\$150,223) will be delayed unless other funds can be found.

The approved State budget also contained bad news, eliminating funding for homeless programs. The budget zeroes out the budget for the Emergency Housing Assistance Program (EHAP), which provides funding for facility operating grants for emergency shelters, transitional housing projects, and supportive services for homeless individuals and families. Additionally, as part of the budget package, the Governor has placed Proposition 1E on the May 19, 2009 special election ballot. This measure diverts \$230 million annually from voter approved Proposition 63—the Mental Health Services Act—to pay for general fund costs of other mental health programs for two years beginning July 1, 2009. Proposition 63 funds are a key funding source for efforts to house the mentally-ill homeless. If voters were to approve this measure, efforts to house the homeless under the City-County-Community Partnership Destination:Home will be negatively impacted.

City Funding Availability

Before the recent market problems, the Housing Department had planned to borrow funds to take out its existing line of credit, and then to replenish the line. This action has been placed on hold for now for several reasons. First, the pricing in the market remains too high, and to borrow now would impact the Department's future borrowing capacity. Second, with the State's inability to borrow, and therefore to provide funding to leverage City funding, projects will not be able to move forward regardless of whether the City provides full funding.

March 4, 2009

SUBJECT: State and Federal Budget related to Affordable Housing

Page 4

In response, the Department plans to fully draw down its \$50 million line of credit by its April 1, 2009 expiration. Housing and Finance Department staff have been working with the City's financial advisors to find a substitute line of credit provider. Recent project approvals have been for land acquisition only, enabling City funds to assist as many pipeline projects as possible with limited funding. When the City is able to borrow and State funding is available, Department staff will bring forward a recommendation to borrow funds and to provide the needed construction financing to enable projects to proceed.

On February 26, the Housing Department sent out a letter to the development community to inform them that, when funds become available, first priority will be to fund those projects that are now partially funded. In addition, it is possible that project delays caused by the lack of State and CalHFA funding may result in increased development costs and therefore the need for additional City subsidy for projects that have already received full funding from the City. (See attachment for a complete listing of impacted projects.)

Second priority will be for projects that currently have funding applications on file and meet the City's policy priorities. And next priority will be for those projects in the pipeline, but for which an official funding application has not yet been received. Needless to say, this is a very difficult time for our development partners. We will be meeting with them and discussing ways that we can ensure that they are able to wait out this down period. Additionally, we are meeting with key City staff to discuss innovative financial alternatives. And, we are meeting with regional and State partners to design a more comprehensive approach, as this concern reaches well beyond San Jose's borders. As information becomes available, the Housing Department will inform the City Council.

In summary, the City will be receiving new federal funding to implement homeless programs and housing and community development efforts. But, the inability of the State to borrow has stalled affordable housing development in San Jose for the foreseeable future. Based on current information, it may be next fall or next year before these projects are able to proceed. The Department has been very conservative in managing its funds to ensure that we stay within our budget. Recent strategies, including providing funding for land acquisition only, have enabled projects to remain active while only committing the minimum amount of funding at this time. Additionally, the Department is closely watching the market to determine the appropriate time to borrow funds and will wait until the interest rates are at a reasonable level before moving forward.


LESLEYE KRUTKO
Director of Housing

Attachment

For questions please contact Leslye Krutko, Director of Housing, at 408-535-3851.

ATTACHMENT

Projects With Full City Funding And State Commitments On Hold

Project Name	Developer	Council District
Fourth Street Apartments	First Community Housing	3
New Family Shelter	Family Supportive Housing	3
Kings Crossing	Charities Housing	3
Belovida @ Newbury Park	CORE	3

Projects With Full City Funding Anticipating State Commitments

Project Name	Developer	Council District
Archer SRO	Charities Housing	3
Cornerstone at Japantown	CORE	3
McCreery Courtyards	Pacific West	5

Projects With Partial City Funding (Land Loans and Predevelopment Funding) On Hold

Project Name	Developer	City Funding	Council District
Ford and Monterey	Eden Housing	Exclusive Negotiations	2
Rosemary Gardens Senior	ROEM	Land Loan	3
Rosemary Gardens Family	ROEM	Land Loan	3
Villa San Antonio	ROEM	Land Loan	3
Willow Glen Woods For Sale	CORE	Exclusive Negotiations	6
Willow Glen Woods Family	Satellite	Exclusive Negotiations	6
San Carlos Senior	CORE	Land and Predevelopment Loans	6
Markham Terrace	Charities	Predevelopment Loans	7
Orvieto	ROEM	Land Loan	7